

Q1 2018



City of Azusa Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (January - March 2018)

Azusa In Brief

Azusa's receipts from January through March were 13.0% below the first sales period in 2017 due to multiple large payment aberrations and the State's transition to a new software and reporting system that caused multiple payments to not get processed in 1Q18. Excluding reporting aberrations, actual sales were up 0.2%.

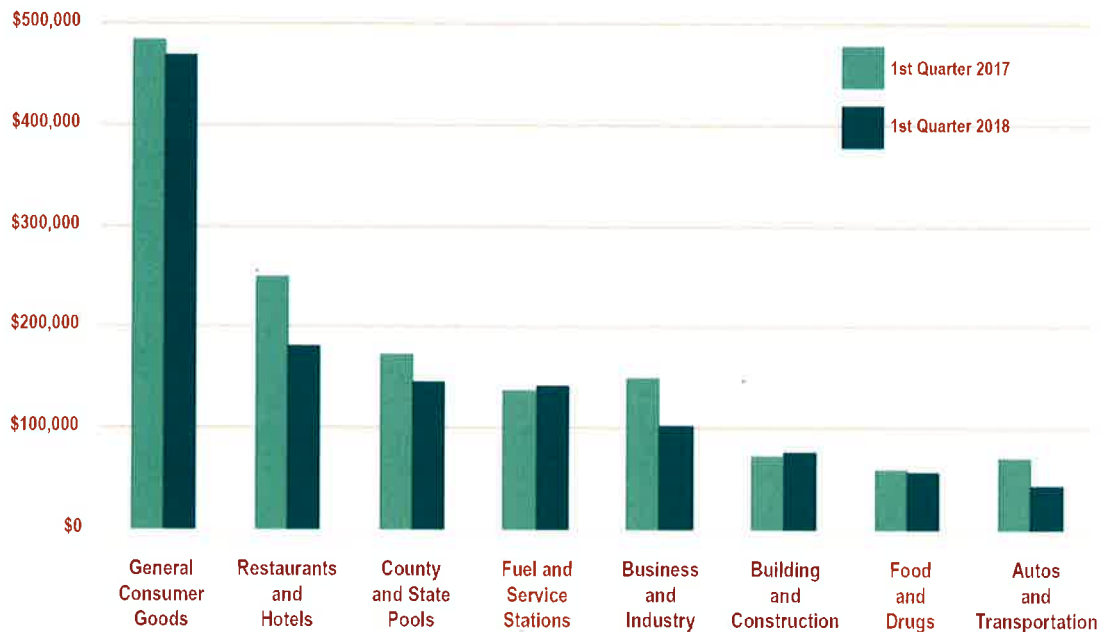
A large onetime use tax payment that inflated prior year casual dining results caused the large drop in restaurant receipts; actual sales were down 2.5%. A negative audit adjustment in the current period and a onetime use tax payment in the prior year depressed business and industry returns. The City's allocation from the countywide use tax pool decreased 16.6%

Overall retail sales were sluggish, down 2.1%. Reporting aberrations and a dealership closeout resulted in a 38% decrease in the automotive sector. Receipts from a newly opened grocery store were offset by missing payments and lower sales from existing outlets.

Service station receipts were also impacted by a missing payment; actual fuel sales were up 12%. Building and construction also posted strong sales results.

Net of aberrations, taxable sales for all of Los Angeles County grew 4.4% over the comparable time period; the Southern California region was up 5.6%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

76	In N Out Burgers
Arco AM PM	Kali Matha Mobil
Azusa Arco	Mancino Door & Window
Azusa Pacific University	McDonalds
Chevron	Outlet By ELS
Chick Fil A	Ross
Costco	Shell
CVS Pharmacy	Stater Bros
Digital Printing Systems	Target
Ferguson Enterprises	Totten Tubes
G & M Oil	USA Gas
Heppner Hardwoods	Valley Thrift Store
	Virginia Hardwood

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$4,912,977	\$4,900,318
County Pool	699,256	680,905
State Pool	3,915	1,668
Gross Receipts	\$5,616,149	\$5,582,891

CDTFA Changes

The California Department of Taxes and Fees Administration (CDTFA) implemented new reporting software – Centralized Revenue Opportunity System (CROS) with the first quarter 2018 tax filings. The change will allow CDTFA to collect and allocate tax revenue more quickly than the prior system making data more timely and relevant for decision making purposes. There will also be a greater emphasis on electronic tax filing with the goal of decreasing errors and misallocations.

During the changeover, CDTFA had a hard cutoff of April 30 for tax returns. Allocating the revenue received through that period left some activity out of the current quarter, pushing it to the second quarter 2018. However, CDTFA will be disbursing the revenue related to the previously delayed payments with the June 2018 monthly allocation.

In summary, the change in software and partial allocations in the first quarter 2018 payments will inflate actual distributions in June 2018 and be included with second quarter 2018 data.

Statewide Results

Given the CDTFA changeover, the statewide first quarter 2018 receipts were 1.8% lower than the prior year. However, once HdL adjusted the results for missing payments and other accounting anomalies, the results were 5.9% higher than the same period in 2017.

A stellar rebound in building-construction activity, compared to a year ago when gloomy winter weather depressed results, and continued increases in fuel prices, were the primary contributors to overall growth. Steady receipts from purchases made online also helped boost countywide use tax pool allocations.

After a long period of solid growth in new car sales, much of the upward movement within this group is now coming from leases rather than purchases. Corporate tax breaks approved by Congress in December 2017, are expected to have a positive impact on the industrial sector as businesses look to invest excess cash.

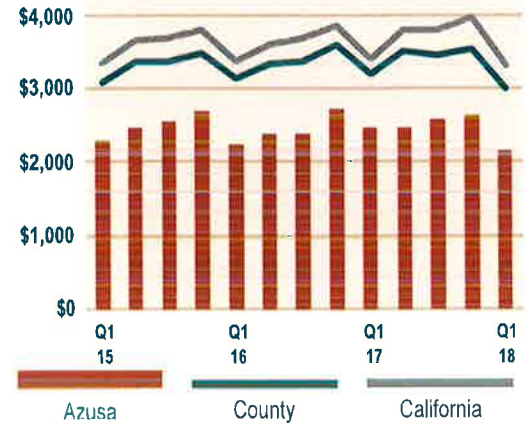
Supreme Court Ruling

On Thursday, June 21, 2018, the Supreme Court ruled in a 5-4 decision to require out-of-state online retailers to collect sales taxes on sales to in-state residents. The physical presence rule as defined by *Quill* is no longer a clear or easily applicable standard, and the online interstate marketplace was not the prevailing issue before the court in 1992.

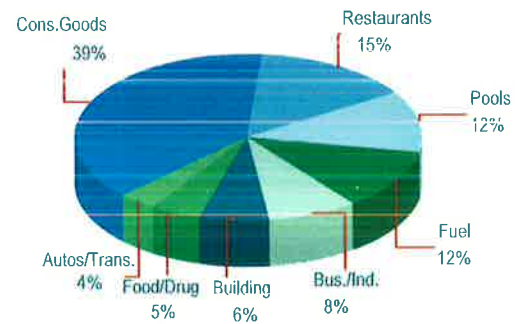
In California, numerous online retailers already collect and remit state and local taxes, including 2 of the 3 companies involved in this Supreme Court case (*Wayfair and Newegg*).

According to a study conducted by the California State Board of Equalization, the total revenue losses related to remote sellers for both businesses and household consumers were about \$1.453 billion in fiscal year 2016-17. Unpaid use tax liabilities in 2016-17 average \$60 per year for each California household, and California businesses average \$171 per year in unpaid use tax liabilities. The CDTFA is currently reviewing the court's opinion to determine next steps to support taxpayers.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Azusa This Quarter



AZUSA TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Azusa Q1 '18*	Azusa Change	County Change	HdL State Change
Automotive Supply Stores	23.8	-3.5%	-8.5%	-4.1%
Building Materials	24.5	3.6%	-3.0%	3.8%
Casual Dining	49.4	-58.0%	-1.1%	-2.0%
Contractors	19.5	13.7%	7.8%	21.6%
Convenience Stores/Liquor	18.8	-15.5%	1.3%	0.5%
Discount Dept Stores	— CONFIDENTIAL —	—	2.7%	2.8%
Drug Stores	— CONFIDENTIAL —	—	-19.0%	-27.9%
Family Apparel	— CONFIDENTIAL —	—	9.5%	8.2%
Fast-Casual Restaurants	15.9	-13.0%	6.8%	6.8%
Grocery Stores	19.6	9.6%	8.9%	1.9%
Heavy Industrial	50.2	18.1%	-0.2%	11.7%
Light Industrial/Printers	25.2	-24.6%	-10.2%	-12.2%
Plumbing/Electrical Supplies	— CONFIDENTIAL —	—	10.0%	11.5%
Quick-Service Restaurants	113.3	2.5%	-4.1%	-3.8%
Service Stations	141.2	2.3%	-3.8%	4.6%
Total All Accounts	1,072.8	-12.4%	-5.9%	-1.8%
County & State Pool Allocation	144.8	-16.6%	-10.3%	-2.1%
Gross Receipts	1,217.7	-13.0%	-6.4%	-1.8%